

GOLDALE

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Goldale Investments Limited
(formerly Aetna-Goldale Investments Limited)

1977 Annual Report

With the compliments of

Dr. K. Roberts

Goldale Investments Limited

(formerly Aetna-Goldale Investments Limited)

Board of Directors	R.A.C. Douglas A.H. Honsberger E.K. Roberts, C.A. K.A. Roberts K.A. Roberts Jr. H.F. Teney, Q.C. J.B.L. Thomas, F.C.A.
Officers	K.A. Roberts, Chairman of the Board and Chief Executive Officer E.K. Roberts, C.A., President and Treasurer H.F. Teney, Q.C., Executive Vice President K.A. Roberts Jr., Vice President N.M. Weston, Secretary
Solicitors	Douglas, Symes & Brissenden, Vancouver, B.C.
Auditors	Clarkson, Gordon & Co.
Offices	EXECUTIVE OFFICE — Suite 4903, Box No. 146 Toronto Dominion Bank Tower, Toronto, Ontario



Goldale Investments Limited

TO THE SHAREHOLDERS:

During the year ended December 31, 1977, there were a number of major changes in your Company. The name of the Company was changed from Aetna-Goldale Investments Limited to Goldale Investments Limited. By a re-organization of the share capital of the Company, the issued shares were reduced in number with the result that for each 25 shares held, each owner received one Class B voting share and four Class A non-voting shares. The present issued and authorized capital of the Company is described in the following paragraph.

By Certificate of Continuation effective October 12, 1977 and Articles of Continuation, the Company was continued under the provisions of The Business Corporations Act of Ontario as if the Company had been incorporated thereunder. The Articles of Continuation of the Company provided for an increase of the authorized share capital of the Company by the creation of 1,500,000 First Preference Shares with a par value of \$50 each issuable in series, and 2,000,000 additional Class A non-voting shares. The attributes of the previously authorized and issued Class A non-voting and Class B voting shares of the Company remained unchanged except that, technically, under The Business Corporations Act of Ontario the class A non-voting shares became "special shares" and the Class B voting shares "common shares". The authorized capital of the Company is now therefore divided into 1,500,000 First Preference Shares of the par value of \$50 each issuable in series, 7,000,000 Class A non-voting shares and 500,000 Class B voting shares of which 1,398,720 Class A non-voting shares and 99,680 Class B voting shares are issued and outstanding as fully paid and non-assessable shares. In addition 200,000 Class A non-voting shares have been reserved for issue against the exercise of a share purchase option granted to Prairial S.A. at \$3.50 per share at any time up to December 31, 1982. This option was granted as a bonus incentive to Prairial S.A. to make an unsecured loan of \$2,045,000 at an interest rate of 8.5% per annum, without principal payments required until the termination of the loan on December 31, 1982, but with the right of the Company to make earlier re-payments.

On October 24, 1977 the Company's subsidiary, Goldale Ontario Limited (the "Subsidiary"), issued and sold 282,000 Floating Rate Cumulative Redeemable First Preference Shares Series A of the par value of \$50 each (The "First Preference Shares") for a cash consideration of \$14,100,000 to a Canadian chartered bank (the "Bank"). Dividends on the First Preference Shares are cumulative and the dividend rate (adjustable quarterly) on the First Preference Shares is equal to 1 3/8% plus one-half of the average daily Prime Rate of the Bank. The First Preference Shares are redeemable at the option of the Bank. The Bank has agreed not to redeem the First Preference Shares prior to October 1, 1980 unless the Subsidiary breaches any of its covenants to the Bank.

The proceeds received by the Subsidiary on the sale of the First Preference Shares were applied to reduce indebtedness of the Subsidiary to the Bank incurred to purchase shares of Canada Trustco Mortgage Company. As collateral security for the Company's and the Subsidiary's obligations to the Bank the Company has pledged the issued and outstanding common shares of the Subsidiary and certain N.H.A. mortgages owned by the Company with the Bank.

During 1977, the Company issued and sold the following additional securities:

1. 970,000 Class A non-voting shares at \$3.50 per share for a total consideration of \$3,395,000; and
2. \$2,045,000.00 aggregate principal amount of 8.5% Serial Notes due December 31, 1982 along with an option to purchase 200,000 Class A non-voting shares at \$3.50 per share exercisable to December 31, 1982.

Goldale Investments Limited

Since January 1, 1978, and not reflected in the balance sheet, 150,000 Class A non-voting shares were issued and sold at \$3.50 per share for a total consideration of \$525,000.

The Subsidiary is presently negotiating the sale of 48,000 Floating Rate Cumulative Redeemable First Preference Shares Series B at \$50.00 each to the Bank for a total consideration of \$2,400,000. The terms are as referred to earlier in this report.

MAIN INVESTMENT OF YOUR COMPANY:

At the year end, 1977, your Company owned 729,860 Class A common shares of Canada Trustco Mortage Company, of which Canada Trust is a wholly owned subsidiary. Your company also owned 91,200 Cumulative Redeemable Convertible Preference Shares Series B of Canada Trustco. This represents 10.44% of the issued equity shares of Canada Trustco along with the position held in the convertible preference shares.

Your Chairman, as President and Chief Executive Officer of two preceding trust companies and a savings and loans company formed ONTARIO TRUST COMPANY which came into being on December 31, 1971. He continued as Chairman and Chief Executive Officer and later Mr. J.B.L. Thomas became President; Mr. H.F. Teney, Vice-President; Mr. A.H. Honsberger, Director and member of the Executive Committee and K.A. Roberts Jr., Assistant to the Chairman of Ontario Trust Company. This company had a spectacular growth record, both as to size, profitability and quality of its' mortgage and other investment portfolios.

On December 31, 1976, after intensive study on the part of Ontario Trust and Canada Trust, an amalgamation was effected which brought together Canada Trust, Ontario Trust and Lincoln Trust. The Lincoln Trust acquisition gave Canada Trust a strong penetration into the rich market of the Niagara Peninsula region. Ontario Trust provided a strong penetration into the Northern Ontario market as well as a broadening of its base in the rest of Ontario. Furthermore, the company aggressively continued to open new branches.

In the studies leading up to this merger, your Chairman was impressed with the calibre of Canada Trustco, the quality of their senior management team, the depth of management, the quality of middle management, the advancement in their use of the computer as a banking tool, their integrity, their aggressiveness in the pursuit of profitable growth and many other positive factors, not least of which was long term planning.

An opportunity opened up for your Company to acquire a substantial shareholding in Canada Trustco. We are confident that we have invested in the best trust company operation in Canada, with great potential for increased growth and profit.

From the ten year record of Canada Trustco reprinted elsewhere in this Annual Report, you will note a growth in 1976 of 1.3 billion dollars in assets under administration at year end. That year included the two acquisitions referred to above. In 1977, without acquisitions, the growth in assets under administration was approximately one billion dollars. We predict that this type of growth will be exceeded on a progressive basis in the years ahead.

Fourteen new financial services branches were opened in 1977 as well as a number of real estate offices. Several important branches underwent major renovations and enlargements. Another ten new financial services branches will open in 1978. The opening of branches is usually a drag on earnings and it requires time until they reach a profitable level. However, as they continue to grow they will produce increasing profits over the years ahead.

Goldale Investments Limited

Canada Trustco, although known in the industry as cautious and conservative lenders, finished 1977 with 3.22 billion dollars in their corporate mortgage portfolio, 91% of which was in residential mortgages. Total mortgages administered exceeded 3.6 billion dollars.

Those shareholders who have purchased shares of your Company by way of private placement for investment concur with us in our belief that Canada Trustco has a great potential for profitable growth. Our shareholders have the opportunity to participate in this anticipated growth. The leverage resulting from borrowed money at favourable rates, backed up by a strong equity position is evident from the study of our financial statements. It is also obvious that shareholders have working for them slightly over 10% of Canada Trustco's approximately eight billion dollars under administration.

In the ten year record shown by Canada Trustco, you will note that dividends have been paid since 1973 in an amount that averages about 50% of earnings, except for the A.I.B. control period. The retention of capital, by paying out less dividends under A.I.B., has had an important strengthening effect on the financial position of the company. However, it would be hoped that in 1979 the Company would return to a policy more closely aligned to the 1973 through 1976 periods.

Mr. J. Allyn Taylor has been a driving force in the development of Canada Trustco since he joined the organization in 1935, and became President and General Manager in 1958. On February 21st he will retire as Chairman. In 1935 when he joined the company the total assets under administration were \$78,372,078 and after tax profit was \$304,284. In 1958, comparative figures were \$503,647,081 and a profit of \$951,000. In 1977, comparative figures were \$7,860,000,000 and an after tax profit of \$30,000,000. Having so successfully nurtured this company for so many years while building strong management to succeed him, we predict that his wisdom, knowledge and advice will be available to the company for many years to come.

Your Company is continually researching opportunities for profitable growth and expansion of your Company. Great progress has been made in the last few months. New opportunities will, we believe, be found in the future.

On behalf of the Board,



Dr. K.A. Roberts,
Chairman.

Goldale Investments Limited
 (Incorporated under the laws of the Province of Ontario)

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1977
 (with comparative figures at December 31, 1976)

	<u>1977</u>	<u>1976</u>
ASSETS		
Cash and deposit receipts	\$ 88,513	\$ 16
Accrued interest and dividends receivable	268,193	17,053
Income taxes recoverable	33,000	
Due from former parent and affiliated companies.....		662,000
Investments:		
Canada Trustco Mortgage Company, at cost (quoted market value December 31, 1977 — \$23,229,000) (notes 2 and 5)	19,470,701	
N.H.A. mortgages, at amortized cost (note 3)	2,209,593	
Joint realty developments, on equity basis (note 4)	126,970	
	\$22,070,000	\$806,039
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Bank indebtedness (note 5)	\$ 1,003,000	
Payable upon receipt of securities purchased	465,227	
Accounts payable and accrued	64,862	\$ 12,775
Unsecured promissory notes payable, bearing interest at 8-1/2%, due December 31, 1982 (note 3)	2,045,000	
	3,578,089	12,775
Minority interest (note 6)	14,231,730	
Shareholders' equity (notes 7 and 9):		
Capital	4,093,141	698,141
Retained earnings	167,040	95,123
	4,260,181	793,264
	\$22,070,000	\$806,039

On behalf of the Board:

Director — K.A. Roberts
 Director — E.K. Roberts

Goldale Investments Limited

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1977

(with comparative figures for 1976)

	<u>1977</u>	<u>1976</u>
Income:		
Canada Trustco Mortgage Company dividends	\$461,713	
Interest	94,189	\$253,112
Equity in earnings of joint realty developments		8,988
Other	5,660	
	<u>561,562</u>	<u>262,100</u>
Expenses:		
General and administrative	61,281	34,800
Interest on bank indebtedness and promissory notes.....	109,949	
Minority interest (note 6).....	<u>272,665</u>	
	<u>443,798</u>	<u>34,800</u>
Earnings before income taxes	117,667	227,300
Income taxes provided (recoverable)	<u>(33,000)</u>	<u>116,000</u>
Earnings for the year	<u>\$150,667</u>	<u>\$111,300</u>
Earnings per share (note 8)	<u>24.2¢</u>	<u>22.3¢</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1977

(with comparative figures for 1976)

	<u>1977</u>	<u>1976</u>
Retained earnings, beginning of year	\$ 95,123	\$1,703,303
Earnings for the year	<u>150,667</u>	<u>111,300</u>
	<u>245,790</u>	<u>1,814,603</u>
Dividends paid		1,719,480
Commission paid on issue of 900,000 Class A shares	<u>78,750</u>	
Retained earnings, end of year	<u>\$167,040</u>	<u>\$ 95,123</u>

(See accompanying notes to consolidated financial statements)

Goldale Investments Limited

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1977
(with comparative figures for 1976)

	<u>1977</u>	<u>1976</u>
Funds were provided from:		
Operations —		
Earnings for the year	\$ 150,667	\$ 111,300
Add (deduct) charges (credits) which do not represent a current flow of funds:		
Income taxes recoverable	(33,000)	
Minority interest (net of dividends paid)	131,730	
Equity in earnings of joint realty developments	<u>249,397</u>	<u>(8,988)</u>
Disposal of investment in joint realty developments	126,970	102,312
Payments received from joint realty developments		116,800
Repayment of amounts due from parent and affiliated companies	662,000	1,383,107
Increase (decrease) in accounts payable and accrued charges	52,087	(520)
Issue of promissory note	<u>45,000</u>	
Total funds provided	<u>1,135,454</u>	<u>1,601,699</u>
Funds were applied to:		
Purchase of NHA mortgages (net of repayments)	\$2,209,593	
Less promissory notes issued as partial consideration	<u>2,000,000</u>	209,593
Increase (decrease) in accrued interest and dividends receivable	251,140	(117,772)
Payment of dividends		1,719,480
Purchase of Canada Trustco Mortgage		
Company shares	<u>19,470,701</u>	
Deduct		
Issue of capital stock	3,316,250	
Increase in bank indebtedness	1,003,000	
Increase in amount payable on receipt of securities purchased	465,227	
Issue of preference shares of wholly-owned subsidiary	<u>14,100,000</u>	<u>586,224</u>
18,884,477		
Total funds applied	<u>1,046,957</u>	<u>1,601,708</u>
Increase (decrease) in cash and deposit receipts	<u>88,497</u>	<u>(9)</u>
Cash and deposit receipts, beginning of year	<u>16</u>	<u>25</u>
Cash and deposit receipts, end of year	<u>\$ 88,513</u>	<u>\$ 16</u>

(See accompanying notes to consolidated financial statements)

Goldale Investments Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1977

1. Summary of significant accounting policies

The following is a summary of significant accounting policies followed in the preparation of these consolidated financial statements:

(a) Basis of consolidation —

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Goldale Ontario Limited.

(b) Premiums on the purchase of the N.H.A. mortgages referred to in note 3 below are being amortized on a straight-line basis over the period to maturity of the mortgages.

2. Canada Trustco Mortgage Company

The investment in Canada Trustco Mortgage Company was acquired during the year for cash except for 70,000 Class A common shares which were acquired in exchange for the issue of a 7% promissory note in the amount of \$1,872,500 (see notes 6 and 7(c)). At December 31, 1977 the investment was comprised as follows:

	<u>Cost</u>	<u>Market value</u>
729,860 Class A common shares	\$17,505,481	\$21,165,940
91,200 Class B cumulative, redeemable, convertible preference shares	1,965.220	2,063.400
	<u>\$19,470,701</u>	<u>\$23,229,340</u>

The quoted market values shown do not necessarily represent the value of the entire blocks of investment holdings which may be more or less than the value indicated by market quotations.

3. N.H.A. mortgages and promissory note payable

During the year the Company purchased \$2,178,150 principal amount of N.H.A. mortgages for \$2,223,387 plus accrued interest. As partial consideration therefor, the Company issued unsecured 8-1/2% promissory notes, due December 31, 1982, in the amount of \$2,000,000 (subsequently increased to \$2,045,000 through capitalization of interest payable) and an option expiring December 31, 1982 to purchase 200,000 Class A non-voting shares of the Company at \$3.50 per share. The promissory notes are payable in whole or in part at anytime at the option of the Company.

The N.H.A. mortgages bear interest at rates of 11% to 12.25% and mature in 1980 and 1981. These mortgages are pledged as collateral security to the holder of the 282,000 floating rate cumulative first preference shares Series A of the subsidiary, Goldale Ontario Limited (see note 6).

4. Joint realty developments

During the year the Company sold, for cash, its investment in three joint realty developments for their consolidated carrying value resulting in neither profit nor loss.

5. Bank indebtedness

A portion of the Company's investment in Canada Trustco Mortgage Company (28,160 Class A common shares and 72,600 Class B preference shares) are pledged as collateral against bank indebtedness which indebtedness bears interest at 9%.

Goldale Investments Limited

6. Minority interest

Minority interest is comprised as follows:

December 31, 1977

282,000 Floating Rate Cumulative Redeemable First preference Shares Series A of the subsidiary, Goldale Ontario Limited, of the par value of \$50 each, redeemable at par, together with accrued and unpaid dividends of \$131,730

\$14,231,730

On October 24, 1977 the Company's subsidiary, Goldale Ontario Limited (the "Subsidiary"), issued and sold 282,000 Floating Rate Cumulative Redeemable First Preference Shares Series A of the par value of \$50 each (the "First Preference Shares") for a cash consideration of \$14,100,000 to a Canadian chartered bank (the "Bank"). Dividends on the First Preference Shares are cumulative and the dividend rate (adjustable quarterly) on the First Preference Shares is equal to 1 3/8 % plus one-half of the average daily Prime Rate of the Bank. The First Preference Shares are redeemable at the option of the Bank. The Bank has agreed not to redeem the First Preference Shares prior to October 31, 1980 unless the Subsidiary breaches any of its covenants to the Bank. The Subsidiary in turn may, upon compliance with certain conditions, redeem or purchase for cancellation all or any of the First Preference Shares at any time after April 15, 1978. The Bank has the right upon the failure of the Subsidiary to pay dividends on the First Preference Shares or the failure by the Subsidiary to comply with certain covenants to require the Company to purchase the First Preference Shares from the Bank at par plus an amount equal to 1.93 times accrued and unpaid dividends at the date of purchase. As collateral security for the Company's and the Subsidiary's obligations to the Bank the Company has pledged the issued and outstanding common shares of the Subsidiary and the N.H.A. mortgages owned by the Company with the Bank. Without the prior consent of the holder of the First Preference Shares Series A, the Subsidiary may not issue or redeem share capital (other than the First Preference Shares), pay dividends to its parent company, incur any indebtedness and/or encumber its assets. Further, the Subsidiary may only dispose of any of its holding of 700,000 Class A common shares of Canada Trustco Mortgage Company provided the average sales price exceeds \$20 per share.

7. Share capital

A summary of the Company's share capital is as follows:

1977

1976

Authorized —

1976 - 3,500,000 common shares of no par value

1977 — 1,500,000 first preference shares of \$50

par value each

7,000,000 Class A non-voting shares

of no par value

500,000 Class B voting shares

of no par value

Issued —

1976 - 2,492,000 common shares

\$698,141

1977 = 1,368,720 Class A, non-voting shares

\$3,874,763

139,628

\$4 014 391

~~\$698.141~~

- (a) Pursuant to special resolutions passed at the annual general meeting of the shareholders of the Company on June 16, 1977, the share capital of the Company was reorganized as follows:

(i) 1,993,600 issued and 800,640 unissued common shares of no par value were designated as Class A non-voting shares of no par value and the remaining 498,400 issued and 207,360 unissued common shares of no par value were designated as Class B voting shares of no par value.

Goldale Investments Limited

- (ii) the 2,794,240 Class A non-voting shares, of which 1,993,600 shares were issued, were consolidated into 558,848 Class A non-voting shares, of which 398,720 shares were issued; the 705,760 Class B voting shares, of which 498,400 shares were issued, were consolidated into 141,152 Class B voting shares, of which 99,680 shares were issued.
 - (iii) the authorized capital, as consolidated, was increased from 558,848 Class A non-voting shares to 5,000,000 Class A non-voting shares and from 141,152 Class B voting shares to 500,000 Class B voting shares.
- (b) Pursuant to a special resolution passed at an extraordinary general meeting of shareholders of the Company on October 12, 1977 and a Certificate of Continuation dated October 12, 1977, the company was continued under The Business Corporations Act (Ontario). Under the Articles of Continuation the Company's authorized share capital was amended and increased by:
- (i) the creation of 1,500,000 first preference shares of \$50 par value each; and
 - (ii) the increase in authorized capital to 7,000,000 Class A non-voting shares of no par value and 500,000 Class B voting shares of no par value.
- (c) Subsequent to the above described capital reorganization, the Company issued 370,000 Class A non-voting shares for a cash consideration of \$1,295,000 and 600,000 Class A non-voting shares in exchange for the cancellation of a 7% promissory note payable in the amount of \$1,872,500 (see note 2) and cash consideration of \$227,500.
- As consideration for arranging the issue of 900,000 Class A non-voting shares, the Company paid a commission of \$78,750, which amount was charged to retained earnings.
- (d) During the year, the Company issued a non-transferable option to purchase 200,000 Class A non-voting shares, at a price of \$3.50 per share expiring December 31, 1982 (see note 3).

8. Earnings per share

The calculations of earnings per Class A and B share are based on the weighted average number of shares outstanding during the year (1977 — 621,578 shares; 1976 — 498,400 shares) after giving retroactive effect to the share reorganization described in note 7(a).

The exercise of the outstanding stock option (see note 7(d)) would have no significant dilutive effect on earnings per share.

9. Retained earnings for income tax purposes

Management estimates that retained earnings at December 31, 1977 includes approximately \$1,163,000 of 1971 Capital Surplus On Hand. Of this amount, \$711,000 has been confirmed by taxation authorities with the balance the subject of current discussion. The amount of 1971 Capital Surplus On Hand as ultimately determined will be available in 1978 for distribution to shareholders free of Canadian tax, although the cost base of the shares owned by Canadian shareholders would be reduced for capital gains tax purposes by the amount of such distribution.

10. Income taxes

A substantial portion of the Company's 1977 income is tax exempt dividend income and accordingly a loss for tax purposes was experienced in the year. This loss will be applied against 1976 taxable income thereby resulting in a recovery of \$33,000 of taxes paid in respect of that year.

11. Subsequent events

In January 1978, the Company issued a further 150,000 Class A non-voting shares for a total cash consideration of \$525,000.

12. Remuneration of directors and senior officers

The aggregate remuneration of directors or senior officers paid or payable by the Company in the year ended December 31, 1977 was nil (1976 — \$1,500).

Auditor's Report

To the Shareholders of
Goldale Investments Limited
(formerly Aetna-Goldale
Investments Limited):

We have examined the consolidated balance sheet of Goldale Investments Limited as at December 31, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
February 2, 1978.

CLARKSON, GORDON & CO.
Chartered Accountants

Goldale Investments Limited

**Exerpts reprinted from
Canada Trustco Mortgage Company
Annual Report for 1977**

IN ORDER FOR THE SHAREHOLDERS OF GOLDALE INVESTMENTS LIMITED TO BETTER UNDERSTAND THE BUSINESS OF CANADA TRUSTCO MORTGAGE COMPANY (CANADA TRUST) WE HAVE REPRODUCED THE FOLLOWING MATERIAL FROM ITS ANNUAL REPORT FOR 1977. THE QUOTATIONS THAT FOLLOW ARE ONLY A SMALL PART OF THE INFORMATION PROVIDED THEREIN. FOR A COPY OF ITS ANNUAL REPORT, SEE YOUR BROKER, VISIT YOUR NEAREST CANADA TRUST OFFICE OR WRITE FOR A COPY TO CANADA TRUST, CANADA TRUST TOWER, 275 DUNDAS STREET, LONDON, ONTARIO, N6A 4S4.

Ten Year Record

	1977	1976	1975
For the year (in thousands)			
Income			
Investment	\$ 395,991	\$ 292,724	\$ 219,984
Fees and commissions	32,770	27,867	26,004
Other	8,213	5,976	5,102
	<u>436,974</u>	<u>326,567</u>	<u>251,090</u>
Expense			
Interest on deposits	307,312	236,345	175,005
Salaries, employee benefits and commissions	51,273	40,786	34,362
Other	32,239	23,224	18,284
	<u>390,824</u>	<u>300,355</u>	<u>227,651</u>
Earnings before income taxes	46,150	26,212	23,439
Income taxes	16,164	8,509	9,360
Net earnings	<u>\$ 29,986</u>	<u>\$ 17,703</u>	<u>\$ 14,079</u>
At year-end (in thousands)			
Assets under administration	\$7,860,000	\$6,891,000	\$5,563,000
Personal, pension and pooled trust funds	3,460,000	3,189,000	2,937,000
Deposits	4,163,000	3,524,000	2,483,000
Loans	3,396,000	2,974,000	2,151,000
Shareholders' equity	189,000	147,000	121,000
Per common share			
Net earnings			
Basic	\$ 3.76	\$ 2.57	\$ 2.17
Fully diluted	3.50	2.47	2.14
Dividends paid including tax paid on Class B dividends	1.30	1.20	1.20
Shareholders' equity	18.15	15.71	15.06
Market price			
High	29	26½	27
Low	20½	18¾	22
December 31	29	21	24½
Price-fully diluted earnings multiple, December 31	8.3	8.5	11.4
Statistical data at year-end			
Number of shares outstanding			
Preference series A	312,059	325,000	380,280
series B	1,500,000	1,500,000	1,500,000
series C	56,437	56,437	
series D	1,250,000		
Common Class A	6,772,619	6,800,576	5,521,088
Class B	216,144	188,087	
Percentage of shares held in Canada	99	99	99
Number of shareholders	7,252	7,401	6,309
Volume of shares traded during the year			
Preference series B and C	450,000	215,000	263,000
Common Class A and B	582,000	402,000	443,000
Number of branches and mortgage offices	138	125	96
Number of full-time employees	2,667	2,451	2,224
Number of regular part-time employees	304	257	179
Number of real estate offices	58	56	48
Number of real estate sales representatives	594	578	460

Reprinted from Canada Trustco Mortgage Company Annual Report for 1977.

1974	1973	1972	1971	1970	1969	1968
\$ 181,346	\$ 149,793	\$ 129,796	\$ 114,946	\$ 101,691	\$ 83,806	\$ 58,172
21,257	17,747	14,492	11,678	10,283	7,767	6,360
4,592	2,620	2,134	2,343	2,015	1,858	1,007
<u>207,195</u>	<u>170,160</u>	<u>146,422</u>	<u>128,967</u>	<u>113,989</u>	<u>93,431</u>	<u>65,539</u>
148,038	110,055	92,779	84,573	80,660	64,109	42,313
27,816	22,002	17,635	14,625	12,736	10,564	8,275
14,743	13,007	11,648	9,560	8,979	8,108	5,802
<u>190,597</u>	<u>145,064</u>	<u>122,062</u>	<u>108,758</u>	<u>102,375</u>	<u>82,781</u>	<u>56,390</u>
16,598	25,096	24,360	20,209	11,614	10,650	9,149
7,569	12,194	11,178	9,952	5,666	5,086	4,466
<u>\$ 9,029</u>	<u>\$ 12,902</u>	<u>\$ 13,182</u>	<u>\$ 10,257</u>	<u>\$ 5,948</u>	<u>\$ 5,564</u>	<u>\$ 4,683</u>
\$4,771,000	\$4,167,000	\$3,704,000	\$3,228,000	\$2,852,000	\$2,574,000	\$2,232,000
2,547,000	2,259,000	2,039,000	1,753,000	1,527,000	1,375,000	1,197,000
2,111,000	1,808,000	1,577,000	1,398,000	1,255,000	1,139,000	997,000
1,868,000	1,610,000	1,410,000	1,251,000	1,112,000	981,000	836,000
89,000	78,000	72,000	64,000	57,000	47,000	44,000
\$ 1.61	\$ 2.34	\$ 2.39	\$ 1.86	\$ 1.17	\$ 1.13	\$ 1.08
1.20	1.15	.93	.59	.53	.52	.46
14.54	14.15	13.06	11.66	10.41	9.55	8.94
31 ³ / ₄	34 ¹ / ₄	35	26 ¹ / ₄	20 ¹ / ₈	18 ¹ / ₂	17 ¹ / ₄
16 ¹ / ₈	26 ¹ / ₂	24 ¹ / ₂	19 ³ / ₄	14 ¹ / ₄	14 ¹ / ₂	9 ¹ / ₂
23 ¹ / ₂	31 ³ / ₄	34	24 ¹ / ₂	20 ¹ / ₈	16 ³ / ₄	16 ³ / ₄
14.6	13.6	14.2	13.2	17.2	14.8	15.5
425,000						
5,521,088	5,521,088	5,521,088	5,521,088	5,521,088	4,911,856	4,911,856
99	98	98	98	98	98	98
4,612	4,654	4,617	4,558	4,678	4,763	4,961
321,100	479,900	422,900	458,800	560,400	538,600	711,900
93	87	82	81	82	79	78
2,226	2,105	1,986	1,889	1,868	1,795	1,692
188	128	25	47	41	39	34
46	42	36	23	18	16	14
368	320	245	151	116	100	90

**CANADA TRUSTCO MORTGAGE COMPANY
CONSOLIDATED STATEMENT OF EARNINGS**
year ended December 31

	1977	1976	%
			Increase (Decrease)
Income			
Investment			
Cashable term deposits	\$ 17,327,000	\$ 16,036,000	8
Short term corporate notes	19,550,000	7,807,000	150
Bonds	15,074,000	13,338,000	13
Stocks	10,823,000	6,872,000	57
Mortgages	312,693,000	232,951,000	34
Consumer and personal loans	12,663,000	9,449,000	34
Trust advances and other secured loans	5,953,000	5,099,000	17
Equipment leased to others	1,908,000	1,172,000	63
	<u>395,991,000</u>	<u>292,724,000</u>	35
Fees and commissions			
Personal trust	9,449,000	8,475,000	11
Pension and pooled trust funds	5,556,000	4,496,000	24
Corporate trust	2,005,000	1,802,000	11
Real estate sales	15,760,000	13,094,000	20
	<u>32,770,000</u>	<u>27,867,000</u>	18
Other	8,213,000	5,976,000	37
	<u>436,974,000</u>	<u>326,567,000</u>	34
Expense			
Interest on deposits			
Chequable	6,854,000	5,328,000	29
Savings	54,963,000	52,347,000	5
Cashable term	16,132,000	11,775,000	37
Term	229,363,000	166,895,000	37
	<u>307,312,000</u>	<u>236,345,000</u>	30
Salaries	35,643,000	28,635,000	24
Pension and other employee benefits note 11	4,778,000	3,241,000	47
Real estate commissions	10,852,000	8,910,000	22
Net occupancy and equipment note 5	13,108,000	9,418,000	39
Advertising	3,898,000	3,336,000	17
Other note 7	15,233,000	10,470,000	45
	<u>390,824,000</u>	<u>300,355,000</u>	30
Earnings before income taxes	<u>46,150,000</u>	<u>26,212,000</u>	76
Income taxes note 6			
Current	10,576,000	3,106,000	241
Future	5,588,000	5,403,000	3
	<u>16,164,000</u>	<u>8,509,000</u>	90
Net earnings	<u>\$ 29,986,000</u>	<u>\$ 17,703,000</u>	69
Attributed to			
Preference shares non-convertible	\$ 1,480,000	\$ 625,000	137
Preference shares convertible	2,262,000	2,175,000	4
Common shares	26,244,000	14,903,000	76
	<u>\$ 29,986,000</u>	<u>\$ 17,703,000</u>	69
Net earnings per common share - basic	\$ 3.76	\$ 2.57	46
Net earnings per common share - fully diluted	\$ 3.50	\$ 2.47	42

CONSOLIDATED STATEMENT OF CONDITION
December 31

	1977	1976	%
			Increase (Decrease)
ASSETS			
Investments			
Cash	\$ 45,230,000	\$ 44,122,000	3
Cashable term deposits	186,617,000	183,840,000	2
Short term corporate notes	241,067,000	132,335,000	82
	<u>472,914,000</u>	<u>360,297,000</u>	31
Securities note 3			
Bonds			
Canada	143,211,000	133,578,000	7
Provincial	12,764,000	16,039,000	(20)
Municipal	2,926,000	2,926,000	(100)
Corporate	97,076,000	45,937,000	111
	<u>253,051,000</u>	<u>198,480,000</u>	27
Stocks			
Preferred	167,984,000	73,311,000	129
Common	36,309,000	36,361,000	
	<u>204,293,000</u>	<u>109,672,000</u>	86
	<u>457,344,000</u>	<u>308,152,000</u>	48
Loans			
Mortgages			
Conventional	1,802,541,000	1,601,782,000	13
Conventional insured	872,536,000	746,060,000	17
National Housing Act	548,148,000	448,414,000	22
	<u>3,223,225,000</u>	<u>2,796,256,000</u>	15
Consumer and personal	118,893,000	85,785,000	39
Trust advances and other secured note 10	53,939,000	91,849,000	(41)
	<u>3,396,057,000</u>	<u>2,973,890,000</u>	14
Real estate acquired in settlement of loans	3,808,000	349,000	991
Equipment leased to others	28,837,000	24,577,000	17
Total investments	4,358,960,000	3,667,265,000	19
Income taxes recoverable		252,000	(100)
Land, premises and equipment note 5	<u>40,478,000</u>	<u>34,004,000</u>	19
	<u>\$4,399,438,000</u>	<u>\$3,701,521,000</u>	19

Approved on behalf of the Board

J. ALLYN TAYLOR, Director

ARTHUR H. MINGAY, Director

	1977	1976	% Increase (Decrease)
LIABILITIES			
Deposits <i>note 9</i>			
Chequable	\$ 308,244,000	\$ 265,607,000	16
Savings	942,843,000	794,861,000	19
Cashable term	255,927,000	183,989,000	39
Term	<u>2,656,467,000</u>	<u>2,279,291,000</u>	17
	<u>4,163,481,000</u>	<u>3,523,748,000</u>	18
Current income taxes	6,025,000		
Mortgages	6,477,000	2,809,000	131
Dividends	<u>3,001,000</u>	<u>2,330,000</u>	29
	<u>15,503,000</u>	<u>5,139,000</u>	202
Future income taxes <i>note 6</i>	31,215,000	25,187,000	24
	<u>4,210,199,000</u>	<u>3,554,074,000</u>	18
SHAREHOLDERS' EQUITY			
Capital stock <i>note 2</i>			
Preference shares	62,370,000	37,629,000	66
Common shares	<u>13,978,000</u>	<u>13,977,000</u>	
Contributed surplus	76,348,000	51,606,000	48
Retained earnings	<u>51,677,000</u>	<u>51,676,000</u>	
	<u>61,214,000</u>	<u>44,165,000</u>	39
	<u>189,239,000</u>	<u>147,447,000</u>	28
	<u><u>\$4,399,438,000</u></u>	<u><u>\$3,701,521,000</u></u>	19

Reprinted from Canada Trustco Mortgage Company Annual Report for 1977.

EARNINGS

Despite a difficult operating environment in Canada during 1977, the Company achieved record net earnings of \$30.0 million compared with \$17.7 million in 1976.

After dividends attributable to preference shares, net earnings per common share - basic were \$3.76, 46% higher than \$2.57 in 1976, computed on the weighted average number of common shares outstanding.

Assuming conversion of all outstanding preference shares series B and C into common shares, net earnings per common share - fully diluted were \$3.50 up 42% from \$2.47 in 1976.

The major portion of the Company's income derives from net investment income - the difference between interest charged to borrowers and that paid to depositors. In 1977 these earnings amounted to \$89 million, an increase of \$32 million or 57% over the previous year. This rate of increase in total dollar spread, due to declining interest rates and a maturity structure whereby investments are somewhat longer in term than deposits, was greater than the rate of growth in business volumes.

As can be seen on the chart on this page and analysis of net earnings on page 24 interest rate spread on a taxable equivalent basis improved from 1.80% in 1976 to 2.14% in 1977. 1977 spread was somewhat higher than normal and further improvement in 1978 is not anticipated. Current extremely competitive conditions both as to attracting deposit funds and lending monies indicate pressure on interest rate spread throughout 1978.

Fees and commissions improved by 18% to \$32.8 million in 1977 from \$27.9 million in 1976. Highlights were a 24% increase in pension and pooled trust fund fees and a 20% rise in real estate sales commissions in 1977 over 1976. Other income totalled \$8.2 million in 1977, an increase of 37% from 1976. In compliance with the anti-inflation program, fees and commissions have not been increased since October 1975 notwithstanding the continuing inflationary environment in which our costs have escalated unrelentingly.

Non-interest operating expenses totalled \$84 million in 1977, an increase of \$20 million or 30% over 1976 levels. Continuing escalation of these expenses is a major concern of management and cost control programs presently in effect are being strengthened.

Cost of staff including salaries, commissions, pension and other employee benefits represents by far the greatest portion of non-interest operating expenses. In 1977 it comprised 61% of the total. Lower increases in salary levels due to impact of Anti-Inflation Board guidelines on compensation and restraint in additions to staff should ameliorate the rate of increase in 1978.

Net occupancy and equipment costs increased 39% or \$3.7 million from the previous year. The major portion of these costs is for premises occupied by branches and administrative functions and for computer and other equipment. A continuing escalation of these expenses will occur because of need to service a rapidly expanding volume of business. Cost of automation will be the fastest growing component as we continue to transfer repetitive routine from people to machines, enabling us to handle increasing volumes of existing and new services efficiently.

A breakdown of other expense is given in note 7. A portion of the increase in provision for investment losses included therein from \$1.0 million in 1976 to \$2.3 million in 1977 is due to management's judgment of existing economic conditions.

The effective rate of income taxes at 35% in 1977 was up somewhat from 32% in 1976.

To better understand the business of the Canada Trustco Mortgage Company (Canada Trust) the following excerpts have been taken from their annual report for 1977.

ASSETS UNDER ADMINISTRATION

Business volumes as measured by assets administered at year-end were \$7.9 billion in 1977, an increase of 14% from previous year-end. Over the five year period from 1973 to 1977 assets under administration have grown at an average annual rate of 16.2% compared with the 17.9% increase in after-tax earnings.

Personal, pension and pooled trust funds at \$3.5 billion were up \$271 million or 8% and corporate assets increased by \$698 million to \$4.4 billion, being 19%. Deposits exceeded \$4 billion and mortgages \$3 billion, each a record.

Shareholders' equity was \$189 million at year-end 1977, up \$42 million from one year prior. Retained earnings increased \$17 million. Capital stock increased \$25 million due entirely to a privately placed issue of series D floating rate preference shares.

SAVINGS SERVICES

Deposits increased \$640 million in 1977 of which \$377 million came from term deposits and \$263 million from demand deposits payable after notice.

Our distribution system for financial services was extended from 123 branches in 1976 to 136 in 1977. We added 21 branches to our computerized savings system which offers our customers the opportunity to transact their savings business at any of those 105 branches now on-line.

In 1978 we plan to replace our existing on-line savings network with a more advanced computerized system, thus allowing further expansion thereof in both existing and new branches.

We continued to develop one of our main services - term deposits - in 1977. Terms of 11 to 20 years were added, as was an option of having interest paid quarterly. It is now possible for a customer to select from terms of one to 20 years, and have interest compounded and paid at maturity, interest paid annually, semi-annually, quarterly or monthly.

A new service was added in late 1977 to our demand deposit line - a daily interest savings account. This account has interest calculated on the daily balance and paid monthly. It is available at all those branches now on-line. Initial customer acceptance of this new service has been most encouraging.

Transaction activity increased substantially in 1977. Over 22 million items were processed, of which 13 million were over-the-counter, a 37% increase over 1976.

In the spring of 1976 we began a year-long test of extended hours open to the public, 8 to 8, six days straight, at all our branches in the London and St. Thomas area. The results of the test were in line with our expectations. This year we

added 27 branches open the 8 to 8, six days straight hours, which are now available at 39 branches.

Our Registered Retirement Savings Plan continued its excellent growth record in 1977. New deposits totalled \$153 million and 26,000 new accounts were opened. The Plan now has 113,000 participants and assets of \$680 million.

Deposits in Registered Home Ownership Savings Plans were \$11 million in 1977. There are now 19,700 participants with collective savings of \$42 million. Assets in the non-tax-sheltered Investment Fund are \$31 million.

FOCUS ON MORTGAGES

This year's Report gives special emphasis to our mortgage operation.

It was an important year for mortgages as our portfolio passed the \$3 billion mark . . . an increase of 139% in the last five years and 600% since 1965.

As one of the largest and most sophisticated mortgage lenders in the country, we provide financing for a wide variety of quality properties: single, detached and semi-detached residential; multi-family rental; commercial and industrial.

